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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 001648

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SUBJECT: MCA HONDURAS MOVING FORWARD

Classified By: Classified by EconChief PDunn for reasons 1.4(b) and (d)

¶1. (C) Summary: MCC and the GOH continue to make progress towards MCA-Honduras implementation. MCC has now filled the position of Mission Director for Honduras. GOH domestic legislation to bring the Compact agreement with Millennium Challenge Corporation into force is quietly making the rounds in the National Congress. Two issues within the MCA-Honduras legislation could prove contentious: highway tolls and the MCC salary structure. A number of legal/contractual matters remain to be worked out as well, including drafting a disbursement agreement, a term sheet, a procurement agreement, a monitoring and evaluation plan, governance regulations, a fiscal agent agreement, and a bank agreement. The selection process for Director of the Program Management Unit -- essentially the senior position within MCA-Honduras -- is nearing completion. End Summary.

¶2. (C) GOH domestic legislation to bring the Compact agreement with Millennium Challenge Corporation into force and create the Honduran entity that would administer the grant -- known as MCA-Honduras -- is quietly making the rounds in the National Congress. President of Congress Porfirio "Pepe" Lobo Sosa and Minister of the Presidency Ramon Medina Luna are personally shepherding the bill through its markup process. Because any changes to the bill could imply very difficult changes to the underlying Compact, few actual markups are expected. Medina told EconChief and MCCDir recently that this is "a delicate process," considering the difficulty of submitting a law to Congress with the instructions that they can change nothing in it. The draft legislation was submitted to Congress on July 28. No date for passage of the bill has been set, but Lobo has pledged to move the legislation to a vote before Congress recesses on September 15.

¶3. (C) A number of legal/contractual matters remain to be worked out as well, including drafting a disbursement agreement, a term sheet, a procurement agreement, a monitoring and evaluation plan, governance regulations, a fiscal agent agreement, and a bank agreement. While complex, these documents are considered to be international business standards and should pose few problems for drafting and approval. An MCC team will visit Honduras beginning August 8 to continue work on these and other legal matters.

¶4. (C) Two issues within the MCA-Honduras legislation could prove contentious: highway tolls and the MCC salary structure. On the former, the MCC required the GOH to indicate how it would make the operations and maintenance of the highway portion of the project sustainable over the long term. The GOH has adopted an Interamerican Development Bank (IDB) proposal (also proposed for other, non-MCC portions of the highway system) that would authorize levying a toll of one centavo (about 1/20 of a U.S. cent) per axel per kilometer. It is estimated (though not yet rigorously calculated by the IDB) that this toll would on average add up to 25% of the fuel bill to the total cost of a trip. MCA believes the cost savings in time on the shorter, better maintained route will more than offset this cost. Nevertheless, there are concerns that the new toll idea could cause political unrest in an election year, particularly in the face of widespread anxiety over high gasoline prices. For these reasons, this provision was removed from the legislation, which might ease passage but will only delay Congressional consideration of a separate bill on this topic later in this session.

¶5. (C) The second issue, that of salaries, is also related to an outside concern: a recent political tempest over consultancy fees for the modernization of the parastatal electric company, ENEE. In that instance, opponents of organizational reform of ENEE turned the consultancy fees of the review commission (up to \$1,000 per day per consultant) into a cause celebre, ultimately pressuring the Congress to cancel the contract. There is therefore great sensitivity in Congress about salaries paid to so-called "consultants," and that has lead to scrutiny of the pay scale proposed by MCA-Honduras for its almost-entirely-Honduran staff.

16. (C) The selection process for Director of the Program Management Unit -- essentially the senior position within MCA-Honduras -- is nearing completion. Of over 28 applicants, 5 were short-listed by a Honduran selection committee and three identified as finalists. MCC is currently considering, with other USG agencies' input, the suitability of the three candidates. The selectee is to be chosen from the three by a Honduran board. Other MCA-Honduras positions (roughly equivalent to Vice Presidents) are to be selected via the same process, but those lists continue to lag behind schedule, with no short-lists yet completed.

17. (C) The GOH, with MCC oversight and assistance, has begun the procurements that are necessary to avoid delaying implementation. Bidding documents for the Transportation Program Manager, the farmer training and development coordinator, and the procurement supervisor are in final stages of preparation and are expected to be published soon.

18. (U) Finally, it should be noted that MCC has now filled the position of Mission Director for Honduras. John Wingle, who also helped design and negotiate the Honduran Compact, arrived at Post on July 18. He can be reached at WingleJX(at)state.gov.

19. (C) Comment: Much remains to be done, as an organization that began as a mere legal framework must learn to first crawl and then walk towards implementation. The GOH continues to demonstrate strong political will to keep the project moving forward, though there is general consensus that actual first disbursement could be delayed until the first quarter of CY 2006. Post and MCC remain vigilant to any weaknesses in the new structure that could permit corruption to creep in. End Comment.

Tuebner